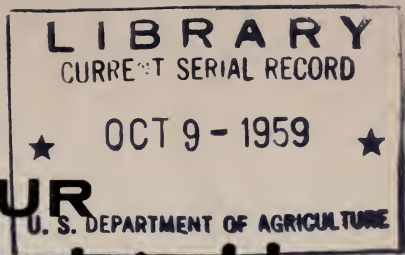


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USING YOUR Rural Credit Union



FCS EDUCATIONAL CIRCULAR 16 • FARMER COOPERATIVE SERVICE

UNITED STATES DEPARTMENT OF AGRICULTURE

THE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with co-operatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

**Joseph G. Knapp, Administrator,
Farmer Cooperative Service,
U.S. Department of Agriculture**

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This educational circular is one of a series prepared for use by members of rural and farm organizations and for educational work with rural youth.

FCS Educational Circular 16

September 1959

Using Your Rural Credit Union

By Arthur H. Pursell,
Farm Services Branch,
Purchasing Division

RURAL credit unions serve many communities in the United States. They are not difficult to organize, their legal and organizational structure is simple, and their operations are not complicated. They are based on the democratic ideal of mutual self-help.

In January 1959, a total of 575 rural credit unions served 150,000 members. Any rural group of 100, or even fewer, can form a successful

credit union. It requires no inventory or investment other than that provided by its members. And once established, it is a self-sustaining organization.

It can be set up in any place convenient to the members. A local farmer cooperative, rural church, community center, or even the treasurer's house can be the "office." Some rural credit unions have their own buildings, but that is something to work up to.

How Your Credit Union Operates

ALL rural credit unions are cooperative savings and lending institutions, organized and operated for the mutual benefit of their members. Their objective is two-fold:

1. To promote thrift among members and to mobilize rural savings.
2. To provide a steady source of credit for members who need to borrow.

Credit unions are chartered by

individual States or by the Federal government as nonprofit, membership corporations. Whichever agency charters your credit union continues to examine it.

Its Members

Charters are issued only to groups of people who share a common interest or "common bond." Your group may be united through:

1. *Membership*—in a farmer cooperative, rural church, or some other membership organization; or

2. *Residence*—in a clearly defined area; or

3. *Employment*—in one place or by one organization.

The bylaws of your credit union spell out other specific requirements for membership. Ordinarily everyone pays a membership fee of 25 cents and purchases (or pledges to purchase) one or more shares in the

credit union. A share is usually \$5. You must be a shareholding member to use the credit union's saving or lending services.

Most rural credit unions permit organizations as well as individuals to become members. This makes it possible for organizations such as farmer cooperatives, which often sponsor credit unions, to join. An association of this type sometimes deposits a sizable sum in a newly organized credit union to help it get started.

When you join a rural credit union, you actually become a part of a much larger organization. While each local credit union operates individually, most of them have voluntarily linked themselves together on a city, state, and national basis. Only two States—Nevada and Alaska—do not have statewide associations. The Credit Union National Association serves local credit unions through the State leagues.



When you join a rural credit union, you join with your neighbors in mobilizing local financial resources.

Its Officers and Committees

Once your credit union is chartered, you and the other members elect from your own group a board of directors to govern the program, a credit committee to approve member loans, and a supervisory committee to conduct audits and supervise operations.

The directors then meet and choose from among their own group a president, vice president, secretary, and treasurer. The president, vice president, and secretary perform the usual duties associated with these offices. The treasurer acts as manager of the credit union. He is responsible for all its re-

sources, for transactions with members, and for bookkeeping and financial reports. He may receive a salary for his work as manager. Other officers, directors, and committeemen are never paid.

An educational committee helps keep members informed on all phases of credit union activity. This committee also conducts a general program to teach the value of money, the benefits of ownership, and the high costs of some types of consumer credit.

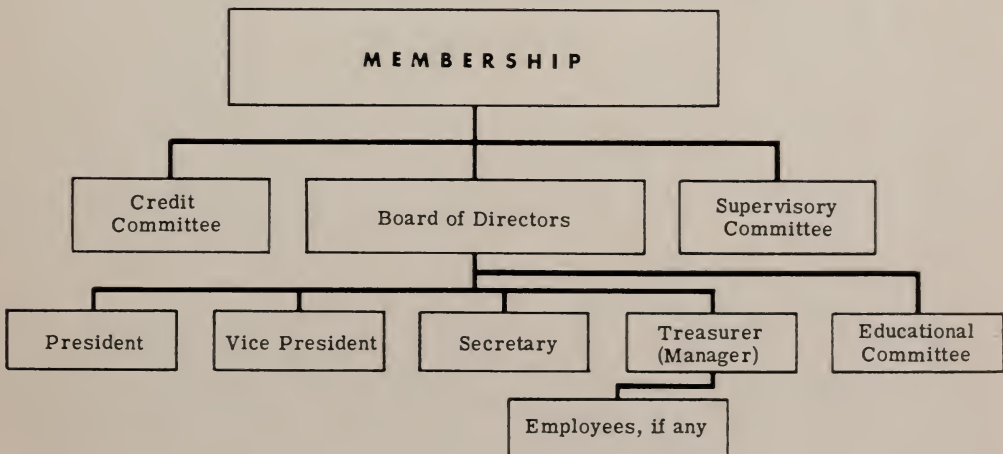
Below is a chart (fig. 1) to show you how a credit union operates. As you see, the basic control lies in the members themselves.

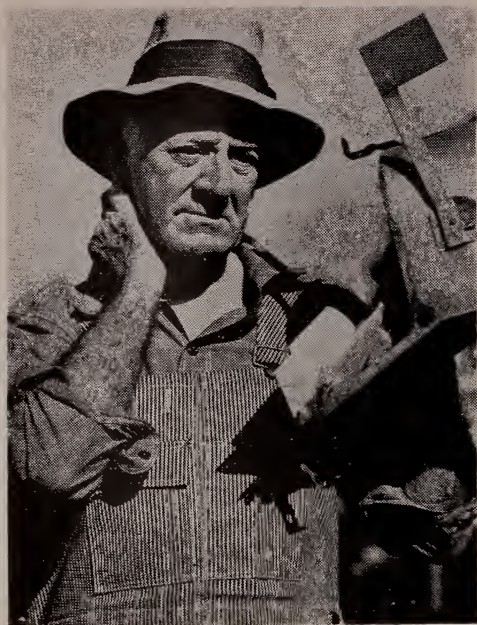
How It Helps You Save

WHILE your credit union is both a savings and a lending association, its initial emphasis is on saving. This is because the money available for loans comes primarily from funds saved and deposited by members. It is this pooling of financial resources that provides operating capital.

Rural credit unions encourage their members to save regularly and systematically. You may mail your money in or stop by the office personally to deposit it in your savings account. Many credit union members choose to save through a deduction of some type. You may want to authorize a regular deduc-

Fig. 1: Credit Union Organizational Chart





Co-ops frequently send out notices with their patronage refund checks urging members to save through their rural credit union.

tion from your milk checks for deposit in your credit union savings account. Or it may suit you to save by the "bushel" or by the "pound"—that is, by depositing the receipts from a load of wheat or the sale of a steer.

Your credit union, like many others, may give you a coin bank to help you save. Farmer cooperatives sometimes send out notices with their patronage or dividend payments urging members to save through the rural credit union.

Many techniques are used but they all have the same purpose—to encourage members to build up their savings.

Your Savings Are Rewarded

As a member of a rural credit union, you receive dividends on your savings or "shares." Your

savings are called "shares" because each unit (usually \$5) represents a share of ownership in the credit union. Dividends are paid from credit union earnings, ordinarily on an annual or semiannual basis.

Your credit union may also provide a group insurance plan whereby your life is insured at no cost to you for an amount equal to your share balance, up to \$2,000. Most rural credit unions provide this as an extra service to their members.

Your Savings Are Protected

Credit unions have demonstrated over the years that they are sound financial organizations. Of course there is always some possibility that a bad loan may be made, but credit unions have reserve funds to take care of such situations. One rural credit union in California has been operating for 22 years, has loaned \$12 million, and has lost only \$200 on bad loans. Many credit unions have never suffered a loss.

These good safety records are partly due to the strict legal limitations on credit union operations. Then, too, their own bylaws set forth specific requirements for granting loans and for investing and depositing member savings.

The fact that loans are made only to members is another built-in safety feature. The applicant for a loan is usually known personally by at least one member of the credit committee. He isn't just a name.

Both the credit union's own supervisory committee and the chartering agency conduct regular, careful audits. This is an additional safeguard.

How It Helps You Borrow

ONE of the major reasons for starting a rural credit union is to provide a reservoir of available capital for members who need to borrow money.

Of course your rural credit union cannot be expected to supply all the needed credit in your community, or even a major part of it. But by encouraging the accumulation and use of local funds, it does reinforce

and supplement the programs of other rural lending agencies. These include Production Credit Associations, National Farm Loan Associations, insurance companies, local banks, and the Farmers Home Administration.

Legally, credit unions may make loans for any "provident or productive purpose." This makes it possible for your credit committee

Table 1.—Loan distribution, by purpose, as of Dec. 31, 1956, for 10 rural credit unions operating in northern Indiana ¹

Purpose of loan	Amount	Percent	Average per credit union ²
Farm production supplies:			
Petroleum products.....	\$428, 933	10. 5	\$47, 659
Feed, seed, and fertilizer.....	988, 182	24. 3	98, 818
Miscellaneous farm supplies ³	116, 565	2. 9	19, 428
Subtotal.....	1, 533, 680	37. 7	-----
Livestock, machinery and equipment:			
Livestock and poultry.....	535, 781	13. 2	59, 531
Tractors.....	230, 158	5. 7	46, 032
Farm trucks.....	106, 989	2. 6	35, 663
Other farm machinery.....	522, 445	12. 8	58, 049
Subtotal.....	1, 395, 373	34. 3	-----
Capital improvements:			
Building supplies and hardware.....	236, 211	5. 8	23, 621
Subtotal.....	236, 211	5. 8	-----
Consumer supplies and services:			
Automobiles and transportation.....	632, 443	15. 6	70, 271
Educational loans.....	21, 103	. 5	10, 552
Home appliances.....	145, 606	3. 6	24, 268
Home repairs.....	45, 457	1. 1	11, 364
Medical care.....	21, 573	. 5	10, 552
Miscellaneous family expense.....	36, 699	. 9	7, 340
Subtotal.....	902, 881	22. 2	-----
Total.....	4, 068, 145	100. 0	-----

¹ Loans made to member cooperatives and for purchase of real estate are not included.

² Not all rural credit unions made all type loans. Averages are for only those making specified types of loans.

³ Includes tires, tubes, batteries, insecticides, twine, rope, and other miscellaneous supplies.

to work out a flexible lending program, tailored to fit the members' needs. If your credit union is newly organized, small loans probably will be taken care of first so that available funds can be spread out to help more members. However, as soon as a credit union builds up sufficient operating capital, this ceases to be a problem.

Why Farmers Borrow

Farmers borrow for four major purposes. They need money for: (1) Farm production supplies and operating expenses; (2) livestock, farm machinery, and equipment; (3) land and capital improvements; and (4) consumer goods, supplies, and services for the farm family.

Table 1 will give you an idea of how much money one group of credit unions has been lending for these different purposes.

How Loans Are Made

If you, as a member, want to borrow from your credit union, you

make a written application for a loan, giving the facts—how much you need, for what purpose, and how and when you can pay the money back. Quite a few rural credit unions have counsellors who talk over loan applications with members and help them work out details.

The credit committee considers every application. When yours is approved it is turned over to the treasurer who handles the rest of the transaction.

Repayment Schedules

You pay back the money you borrow according to a definite schedule, agreed upon at the time the loan is made. Payments may be made monthly, quarterly, annually, or on some other basis that suits you. A dairy farmer may arrange to repay his loan on a monthly basis through authorized milk check deductions. A grain farmer may find it easier to schedule his payments at harvest time.

Your credit union may also grant budget type loans, which are a little



Rural credit union managers or fieldmen frequently counsel with farmers on loans or farm budget.



Grain farmers may borrow for farm equipment, making repayment at harvest time.

different. This is really a line-of-credit type service—a method of working out financing all at one time for an entire year or season, rather than through a number of separate loans. Once this type loan is approved, the total amount is deposited to your account and you may withdraw sums as needed throughout the season or year.

In your credit union, you pay interest only on the actual number of dollars used and for the actual number of days.

Terms and Rates

Your credit union determines what interest rate it needs to charge. The legal maximum rate is 1 percent a month on the unpaid balance. However, the actual cost to you may be considerably less. Remember that credit unions operate on a nonprofit basis. This means that you and the other members receive benefits in one form or another from all credit union income.

Some rural credit unions also make patronage refunds to borrow-

ers on interest paid during the year. This is a way of sharing with borrowers any interest income over that which is necessary for normal operating costs and to pay dividends on member savings.

Collateral Needed

If you are borrowing a small amount of money, your signature will probably be sufficient security. Loans of this type are called “character loans.”

If you borrow a larger sum, your credit union will need some form of collateral as security. This may be a coendorser; pledge of your credit union savings; chattel mortgage; U.S. savings bonds; life insurance policy; or some other form of collateral acceptable to the credit committee.

Most rural credit unions carry group life insurance on outstanding loans. When you borrow from the credit union, your life is automatically insured for the unpaid balance of the loan, up to \$10,000. If you should die or become totally disabled, the insurance pays it off.



This community credit union in Hereford, Tex., has 3,100 members and \$1.4 million in member savings.

You may borrow from your credit union even though you have money on deposit in your savings account. In fact, some credit unions encourage this, suggesting that you use your savings as collateral

for a loan instead of withdrawing all your funds. This is a particularly good working arrangement in credit unions that carry insurance on both outstanding loans and member share-accounts.

Your Credit Union's Place in the Community

RURAL credit unions work with many other community groups and organizations—such as cooperatives, churches, 4-H clubs, veterans' organizations, and the like.

Here are examples of groups being served by rural credit unions.

In Indiana, 42 county farm bureau cooperatives have sponsored rural credit unions to serve their membership; and in California, 40 Grange locals have sponsored rural credit unions. In Sedan, Kans., a rural credit union serves the mem-

bership of a rural electric cooperative. It helps many members finance general farm and home needs, especially electrical appliances and supplies.

In Hereford, Tex., a community credit union had 3,100 members, \$1.4 million in savings, \$1.6 million in assets, and \$1.2 million in outstanding loans as of December 31, 1958. It returned \$59,000 to members in dividends on shares, and patronage refunds on interest that year.

In Alabama, a country doctor has recently helped his neighbors organize a rural credit union to improve their economic position.

And so it goes. Your rural credit union is a tool to help mobilize the unused resources of the community. It provides a common

meeting place for the farmer with money to loan and the farmer needing to borrow, filling both needs on a businesslike basis. Through its group activities and service programs, it makes a meaningful contribution to both the life and spirit of the community.

What You Gain From Your Credit Union

YOUR rural credit union helps you help yourself in many ways. Let's summarize briefly what you gain.

1. You operate, with your neighbors, your own financial organization and, through it, mobilize local financial resources.

2. You develop a habit of saving systematically.

3. You assure yourself of a ready

source of sound credit—available on a nonprofit basis.

4. You increase your income through dividends on credit union savings and patronage refunds on interest costs.

Thus, your rural credit union helps you improve your own financial condition and puts you in a better position to meet the demands and expenses of modern living.

How To Start a Credit Union

YOU can get detailed information on how to start a rural credit union from several sources. Frequently, a local credit union already operating in your community can help you get started. The best source, however, is your own State credit union league. The main function of these associations is to help organize, promote, and serve local credit unions.

Your State league will send you literature and films explaining the credit union program. If you wish, a fieldman from the league will meet with you and discuss the subject in detail. Then if your group decides to organize a credit union, the same fieldman can help you handle the technical details in-

involved in obtaining your charter. He can also help you with your first membership meeting, election of officers and directors, setting up your record system, and other necessary procedures.

Record forms and bookkeeping supplies are available at cost from State leagues or the Credit Union National Association.

If you need the name and address of your State league, write to the Credit Union National Association, 1617 Sherman Avenue, P.O. Box 431, Madison 1, Wis.

Farmer Cooperative Service, U.S. Department of Agriculture, Washington 25, D.C., will also be glad to send you general information on rural credit unions.

You and Your Co-op Series

Other circulars in this series are available from the Farmer Co-operative Service, U.S. Department of Agriculture, Washington 25, D.C. The series includes:

The Story of Farmer Cooperatives, FCS Educational Circular 1.

Using Your Wool Co-op, FCS Educational Circular 2.

Guide for Teaching Farmer Cooperation, FCS Educational Circular 3.

Using Your Livestock Co-op, FCS Educational Circular 4.

Financing Farmer Cooperatives, FCS Educational Circular 5.

Using Your Farm Supply Co-op, FCS Educational Circular 6.

Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7.

Using Your Co-op Elevator, FCS Educational Circular 8.

Using Your Poultry and Egg Co-op, FCS Educational Circular 9.

Forming Farmer Cooperatives, FCS Educational Circular 10.

Sizing Up Your Cooperative, FCS Educational Circular 11.

Farmer Cooperatives in Our Community, FCS Educational Circular 12.

Three Principles of Agricultural Cooperation, FCS Educational Circular 13.

Using a Local Cooperative as Source Material for Teaching, FCS Educational Circular 14.

Using Your Co-op Cotton Gin, FCS Educational Circular 15.

A copy of each of these publications may be obtained upon request while a supply is available from the

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